

ACTION FOR HEALTHY KIDS, INC.

**FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2018 AND 2017**

TOGETHER WITH AUDITOR'S REPORT



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Management
of Action for Healthy Kids, Inc.

We have audited the accompanying financial statements of Action for Healthy Kids, Inc. (a nonprofit organization) which comprise the statement of financial position as of December 31, 2018 and 2017, and the related statements of activities, cash flows and functional expenses for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

To the Board of Directors and Management
of Action for Healthy Kids, Inc.
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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Action for Healthy Kids, Inc. as of December 31, 2018 and 2017, and the changes in its net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Dugan + Lopatka
DUGAN & LOPATKA

Warrenville, Illinois
May 10, 2019

ACTION FOR HEALTHY KIDS, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1,465,832	\$ 2,961,536
Investments	2,847,621	275,000
Accounts and contributions receivable	558,071	735,514
Prepaid expenses	464,204	3,045
Total current assets	<u>5,335,728</u>	<u>3,975,095</u>
PROPERTY AND EQUIPMENT, net	<u>81,859</u>	<u>35,352</u>
OTHER ASSETS:		
Security deposits	<u>5,928</u>	<u>5,928</u>
Total assets	<u>\$ 5,423,515</u>	<u>\$ 4,016,375</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	<u>\$ 572,365</u>	<u>\$ 762,138</u>
NET ASSETS:		
Without donor restrictions - Designated	903,372	957,166
- Undesignated	<u>69,476</u>	<u>148,311</u>
Total net assets without donor restrictions	972,848	1,105,477
With donor restrictions	<u>3,878,302</u>	<u>2,148,760</u>
Total net assets	<u>4,851,150</u>	<u>3,254,237</u>
Total liabilities and net assets	<u>\$ 5,423,515</u>	<u>\$ 4,016,375</u>

The accompanying notes are an integral part of this statement.

ACTION FOR HEALTHY KIDS, INC.
STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018		2017	
	Without Donor Restrictions	With Donor Restrictions	Without Donor Restrictions	With Donor Restrictions
		Total		Total
SUPPORT AND REVENUE:				
Public support and revenue -				
Contributions	\$ 870,770	\$ 6,700,630	\$ 1,213,718	\$ 5,622,779
Government grants	278,542	278,542	293,041	293,041
Conferences and other	56,901	56,901	68,572	68,572
Interest income	55,750	55,750	11,715	11,715
Total public support and revenue	1,261,963	7,091,823	1,587,046	5,996,107
Net assets released from restrictions -				
Satisfaction of program restrictions	4,579,542	(4,579,542)	4,905,967	(4,905,967)
Net public support and revenue	5,841,505	7,091,823	6,493,013	5,996,107
EXPENSES:				
Program expenses -				
National Activities	3,341,114	3,341,114	3,563,430	3,563,430
State Team Activities	1,465,312	1,465,312	1,912,904	1,912,904
Total program expenses	4,806,426	4,806,426	5,476,334	5,476,334
Supporting services -				
Management and general	375,501	375,501	324,832	324,832
Fundraising and marketing	792,207	792,207	573,495	573,495
Total supporting services	1,167,708	1,167,708	898,327	898,327
Total expenses	5,974,134	5,974,134	6,374,661	6,374,661
CHANGE IN NET ASSETS, before acquisition of Active Schools	(132,629)	1,117,689	118,352	(378,554)
Assets acquired in donation from Active Schools	-	479,224	-	-
CHANGE IN NET ASSETS	(132,629)	1,596,913	118,352	(378,554)
NET ASSETS, Beginning of year	1,105,477	3,254,237	987,125	3,632,791
NET ASSETS, End of year	\$ 972,848	\$ 4,851,150	\$ 1,105,477	\$ 3,254,237

The accompanying notes are an integral part of this statement.

ACTION FOR HEALTHY KIDS, INC.
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Change in net assets	\$ 1,117,689	\$ (378,554)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	25,205	15,409
Donated software licenses	(449,200)	-
Changes in assets and liabilities -		
Decrease in accounts and contributions receivable	177,443	861,632
(Increase) decrease in prepaid expenses	(11,959)	8,800
Increase (decrease) in accounts payable and accrued liabilities	(189,773)	9,247
	<u>669,405</u>	<u>516,534</u>
Net cash provided by operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(2,847,621)	-
Contributions received in acquisition of Active Schools	479,224	-
Proceeds from sale of investments	275,000	325,000
Purchase of property and equipment	(71,712)	(24,968)
	<u>(2,165,109)</u>	<u>300,032</u>
Net cash provided by (used in) investing activities		
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on notes payable	-	(75,000)
	<u>(1,495,704)</u>	<u>741,566</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS		
CASH AND CASH EQUIVALENTS, Beginning of year	<u>2,961,536</u>	<u>2,219,970</u>
CASH AND CASH EQUIVALENTS, End of year	<u>\$ 1,465,832</u>	<u>\$ 2,961,536</u>

The accompanying notes are an integral part of this statement.

ACTION FOR HEALTHY KIDS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018

	Programs		Total Programs	Supporting Services		Total Supporting Services
	National Activities	State Team Activities		Management and General	Fundraising and Marketing	
Accounting and legal fees	\$ -	\$ -	\$ -	\$ 29,471	\$ 13,763	\$ 43,234
Board meetings and expense	-	-	-	19,281	6,427	25,708
Consulting fees	596,240	109,079	705,319	19,106	58,848	77,954
Insurance	9,815	6,478	16,293	1,374	1,963	3,337
Office expenses	71,435	44,859	116,294	9,203	28,898	38,101
Personnel	987,750	335,301	1,323,051	251,092	580,262	831,354
Postage and delivery	5,795	4,224	10,019	441	1,583	2,024
Grants and program implementation	1,379,237	877,983	2,257,220	-	58,585	58,585
Rent	55,424	36,362	91,786	7,713	11,019	18,732
Travel and conference costs	235,418	51,026	286,444	18,916	24,558	43,474
Depreciation	-	-	-	18,904	6,301	25,205
Total functional expenses	\$ 3,341,114	\$ 1,465,312	\$ 4,806,426	\$ 375,501	\$ 792,207	\$ 1,167,708
						\$ 5,974,134

The accompanying notes are an integral part of this statement.

ACTION FOR HEALTHY KIDS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2017

	Programs		Total Programs	Supporting Services		Total Supporting Services
	National Activities	State Team Activities		Management and General	Fundraising and Marketing	
Accounting and legal fees	\$ -	\$ -	\$ -	\$ 43,838	\$ 16,016	\$ 59,854
Board meetings and expense	-	-	-	25,735	8,578	34,313
Consulting fees	470,210	86,716	556,926	10,107	125,476	135,583
Insurance	9,832	6,489	16,321	1,376	1,966	3,342
Office expenses	64,222	25,614	89,836	4,975	38,022	42,997
Personnel	732,867	407,120	1,139,987	203,561	284,984	488,545
Postage and delivery	3,306	2,294	5,600	293	2,569	2,862
Grants and program implementation	2,021,471	1,192,767	3,214,238	-	70,893	70,893
Rent	48,606	32,080	80,686	6,805	9,721	16,526
Travel and conference costs	212,916	159,824	372,740	16,585	11,418	28,003
Depreciation	-	-	-	11,557	3,852	15,409
Total functional expenses	\$ 3,563,430	\$ 1,912,904	\$ 5,476,334	\$ 324,832	\$ 573,495	\$ 898,327
						\$ 6,374,661

The accompanying notes are an integral part of this statement.

ACTION FOR HEALTHY KIDS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES:

Action for Healthy Kids, Inc. (AFHK) is a charitable organization incorporated in Washington, D.C. in September, 2002. AFHK is a nationwide grassroots network that mobilizes school professionals, parents and communities in support of school-based nutrition and physical activity programs that lead to healthier schools where kids are healthy, active and better prepared to learn. Through training, funding, wellness programs and a shared determination to see all children become healthy, successful adults, AFHK provides the comprehensive support and resources needed to build healthy schools in every community.

The financial statements were available to be issued on May, 10, 2019, with subsequent events being evaluated through this date.

The following summarizes the significant accounting policies and practices reflected in the accompanying financial statements:

Accounting Method -

AFHK records its financial transactions and maintains its books and records on the accrual basis of accounting, which recognizes revenues as they are earned and expenses as they are incurred.

Basis of Presentation -

AFHK is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Without donor restrictions - Net assets that are not subject to donor-imposed stipulations and may be expensed for any purpose in performing the primary objectives of AFHK. These net assets may be used at the discretion of management and the board of directors.

With donor restrictions - Net assets subject to donor-imposed stipulations. Some donor restrictions are temporary in nature; those restrictions will be met either by actions of AFHK and/or the passage of time. Other donor restrictions are perpetual in nature, where the donor has stipulated the funds be maintained in perpetuity.

Cash and Cash Equivalents -

For purposes of the statement of cash flows, AFHK considers all highly liquid instruments with an original maturity of three months or less to be cash equivalents.

Financial Instruments -

The carrying values of cash and cash equivalents, accounts and contributions receivable, prepaid expenses and other assets, noncurrent contributions receivable, and accounts payable and accrued liabilities are reasonable estimates of fair value due to the short-term nature of these financial instruments.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES: (Continued)

Concentrations of Credit Risk -

Financial instruments which potentially subject AFHK to concentrations of credit risk consist principally of cash. AFHK places its cash and deposits with high credit quality financial institutions; however, deposits may exceed the federally insured limits in various banks from time to time.

Investments -

AFHK invests cash in certificates of deposit (CDs) and U.S. Treasury notes. The CDs are guaranteed by the FDIC and are recorded at cost due to low market volatility and tradability of the securities. The U.S. Treasury notes are reported as fair market value for financial statement purposes.

Receivables -

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at fair value, which is measured as the present value of their future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the contributions are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met. All contributions receivable are considered fully collectible based on past experience and management's judgment; therefore, no allowance for doubtful contribution accounts receivable is needed.

Property and Equipment -

AFHK follows the practice of capitalizing all expenditures for property and equipment having a useful life in excess of one year. Property and equipment are recorded at cost or, if donated, at the estimated fair market value at the date of donation and are depreciated over their estimated useful lives, which range from three to seven years, using the straight-line method. Any purchases over \$1,000 are capitalized.

In-Kind Contributions -

Donated services are recognized as contributions in accordance with the Accounting Standards Codification for *Contributions Received and Contributions Made*, if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by AFHK. The value of donated assets, supplies, and services is included as in-kind contribution revenue and a corresponding program expense in the financial statements. Many individuals volunteer time and perform a variety of tasks that assist AFHK. There were more than 100,000 volunteers in 2018 and 2017. Although valuable, volunteer time is not recognized in the financial statements.

Estimates -

AFHK prepares its financial statements according to generally accepted accounting principles which require the use of estimates and assumptions that affect reported amounts and disclosures. Actual results could differ from those estimates.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES: (Continued)

Restricted Resources -

AFHK reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

AFHK reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, AFHK reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Income Taxes -

AFHK has been determined by the Internal Revenue Service to be exempt from income tax under Section 501(c)(3) of the Internal Revenue Code, except for taxes on unrelated business income. Accordingly, no provision for income tax has been established.

AFHK files income tax returns in the U.S. federal jurisdiction and Illinois. With few exceptions, AFHK is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for fiscal years before 2015. AFHK does not expect a material net change in unrecognized tax benefits in the next twelve months.

Allocation of Expenses -

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries and wages, benefits, payroll taxes, professional services, office expenses, information technology, occupancy, depreciation and other, which are allocated on the basis of estimates of time and effort.

New Accounting Pronouncement -

During 2018, AFHK adopted ASU 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. This update to ASU 958 addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. AFHK has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

(2) ACCOUNTS AND CONTRIBUTIONS RECEIVABLE:

At December 31, 2018 and 2017, the timing of payments of accounts and contributions receivable as determined by the underlying agreements are expected to be as follows:

	<u>2018</u>	<u>2017</u>
Receivable in less than one year	\$ 558,071	\$ 735,514
Receivable in greater than one year and less than five years	<u>-</u>	<u>-</u>
Total accounts and contributions receivable	558,071	735,514
Less unamortized discounts	<u>-</u>	<u>-</u>
Net accounts and contributions receivable	<u>\$ 558,071</u>	<u>\$ 735,514</u>

(3) INVESTMENTS:

The following is a summary of investments at December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Certificates of deposit – at cost	\$ 2,250,000	\$ 275,000
U.S. treasury notes – at fair market value	<u>597,621</u>	<u>-</u>
	<u>\$ 2,847,621</u>	<u>\$ 275,000</u>

(4) FAIR VALUE MEASUREMENTS:

The Accounting Standards Codification for Fair Value Measurements establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1:

Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that AFHK has the ability to access.

(4) FAIR VALUE MEASUREMENTS: (Continued)

Level 2:

Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3:

Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodology used for assets measured at fair value.

U.S. Treasury Notes: Valued at closing price reported on the active market on which the individual securities are traded.

The preceding method described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although AFHK believes its valuation method is appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, AFHK's assets at fair value as of December 31, 2018:

<u>Description</u>	<u>Assets at Fair Value as of December 31, 2018</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
U.S. treasury notes	<u>\$ 597,621</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 597,621</u>

(5) LIQUIDITY AND AVAILABILITY:

	December 31,	
	<u>2018</u>	<u>2017</u>
Financial Assets -		
Cash and cash equivalents	\$ 1,465,832	\$ 2,961,536
Investments	2,847,621	275,000
Accounts and contributions receivable	<u>558,071</u>	<u>735,514</u>
Total financial assets	4,871,524	3,972,050
Donor imposed restrictions	<u>3,878,302</u>	<u>2,148,760</u>
Net financial assets after donor-imposed restrictions	993,222	1,823,290
Internal designations -		
Board advised funds	<u>903,372</u>	<u>957,166</u>
Financial assets available to meet cash needs for general expenditures that is without donor or other restrictions limiting their use within one year	<u>\$ 89,850</u>	<u>\$ 866,124</u>

AFHK receives significant contributions, some of which are restricted by donors to fund specific programs or projects. Such restricted funds are tracked for use for the identified program or project. Restricted contributions of \$6,309,084 and \$4,409,061 were received and included in financial assets for the years ended December 31, 2018 and 2017, respectively.

AFHK manages its liquidity and reserves following three guiding principles:

- operating within a prudent range of financial soundness and stability
- maintaining adequate liquid assets to fund near-term operating needs
- maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged.

(6) PROPERTY AND EQUIPMENT:

Property and equipment consist of the following:

	<u>2018</u>	<u>2017</u>
Computer equipment	\$ 113,744	\$ 78,127
Furniture and equipment	67,626	50,588
Leasehold improvements	<u>59,567</u>	<u>40,509</u>
	240,937	169,224
Less - accumulated depreciation	<u>159,078</u>	<u>133,872</u>
	<u>\$ 81,859</u>	<u>\$ 35,352</u>

(7) COMMITMENTS:

AFHK leases its offices under the terms of a noncancelable lease agreement expiring in June, 2021, which requires AFHK to make minimum lease payments and pay a pro rata share of certain operating costs. Rent expense under the office lease was \$103,577 and \$91,545 for 2018 and 2017, respectively. Additionally, AFHK leases office equipment under the terms of a noncancelable lease agreement expiring in March, 2022. Lease expense under the equipment leases was \$6,558 and \$6,398 for 2018 and 2017, respectively.

Future minimum lease payments under the office and equipment leases as of December 31, 2018 are as follows:

2019	\$ 105,573
2020	108,563
2021	58,393
2022	1,410

(8) NET ASSETS:

Board designated net assets are as follows:

	<u>2018</u>	<u>2017</u>
Operating reserve	\$ 425,000	\$ 325,000
State teams	<u>478,372</u>	<u>632,166</u>
	<u>\$ 903,372</u>	<u>\$ 957,166</u>

Net assets with donor restrictions are as follows:

	<u>2018</u>	<u>2017</u>
Universal Breakfast for Healthy Kids	\$ 1,243,614	\$ 176,050
School Breakfast for Healthy Kids	25,255	301,142
Game On! The Ultimate Wellness Challenge	246,705	946,847
Active Kids Campaign	158,923	276,522
Active Schools	781,605	-
Colorado Parents for Healthy Kids	298,150	141,243
Parents for Healthy Kids	1,123,050	306,956
Urban School Wellness Coalition	<u>1,000</u>	<u>-</u>
	<u>\$ 3,878,302</u>	<u>\$ 2,148,760</u>

(9) DONATED ASSETS, SUPPLIES AND SERVICES:

The value of donated assets, supplies and services included as in-kind contribution revenue and the corresponding program expenses in the financial statements are as follows:

	<u>2018</u>	<u>2017</u>
Office expenses -		
Printing and copying	\$ -	\$ 5,145
Telephone	-	150
Postage and delivery	-	250
Meeting costs	-	53,725
Travel	96	27,700
Accounting services	626	-
Program Materials	-	11,862
Donated software licenses	<u>449,200</u>	<u>-</u>
	<u>\$ 449,922</u>	<u>\$ 98,832</u>

(10) RETIREMENT PLAN:

AFHK has a retirement accumulation 403(b) plan for all employees working more than 1,000 hours in the plan year. Employee contributions are voluntary and are made on a pre-tax basis. AFHK did not make any matching contributions for the years ended December 31, 2018 and 2017.

(11) ACQUISITION OF ACTIVE SCHOOLS:

On June 30, 2018, AFHK acquired all assets related to Active Schools, a national initiative to ensure physical activity among children, from The Partnership for a Healthier America, Inc. As a result of the acquisition, AFHK is expected to help advance the Active Schools program by coordinated fundraising and activities promoting physical activity by children. AFHK assumes all duties, responsibilities, and obligations in connection with the transferred assets. AFHK gave no consideration and received cash of \$479,224 in the acquisition.